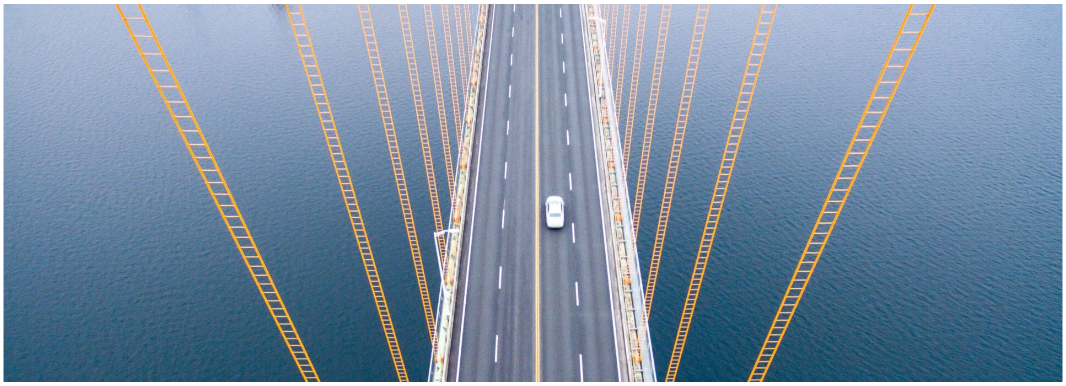
Transportation Infrastructure

Revenue growth moderates amid geopolitical uncertainties

January 14, 2025

This report does not constitute a rating action.



What's changed?

Our global portfolio's creditworthiness is stable or slightly improving, following strong operations in the past two years and improved balance sheet profiles across transportation asset classes. Transit is recovering but still faces weaker ridership in certain regions.

Mobility trends are normalizing. Global portfolio traffic will return to more GDP-linked rates of growth of about 3% against user fee increases and eroding disposable income.

What are the key assumptions for 2025?

Revenue growth moderates to 5%-6%, as U.S. and China slow, the eurozone and Pacific regions and Asia continues to recover and grow, and emerging markets find their footing.

Issuers shift toward capital investments and merger and acquisition (M&A) activity increases, as outlooks bode well and interest rates decrease.

What are the key risks around the baseline?

Geopolitical tensions and growing protectionism. U.S. and global political changes and associated policy uncertainty could introduce more volatility in certain jurisdictions. Widening tariffs with trade partners and intensifying tensions could hit global trade, consumption and travel patterns, and supply chains.

A sharper-than-forecast global economic slowdown weakening travel demand. Economic performance is paler than we currently forecast, along with higher interest cost burdens.

A slower-than-expected decline in interest rates. Persistent U.S. economic growth and potential tariff-induced inflation are headwinds to further cuts.

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Cross-Sector Outlook

S&P Global Ratings' view on the global transportation infrastructure sector for 2025 is largely stable. Many asset classes operators have now completed their credit recovery and are shifting their focus toward ramping up capital investment programs and shareholder returns. We expect airport operators to advance both replacement and capacity-enhancing projects and toll operators to expand road networks either organically or through M&A activity.

We expect volume growth across most asset classes and mobility patterns to normalize to about 3% growth, correlated to slower economic performance in many countries. This is after most assets having recovered to pre-COVID-19 levels in the past year. Some regions, like Asia, could register higher growth.

We anticipate the transportation infrastructure sector's operating margin will remain stable. That said, geopolitical rifts and trade protectionism policies (i.e., tariffs) will underpin volatility and uncertainty for certain issuers in certain countries; for example, port operators and the logistics value chain could be impacted including air cargo, commercial trucking, rail, etc., although the degree and duration of the impact as well as any potential credit implications are difficult to precisely measure at this time.

Central banks have started lowering their interest rates, and we expect more monetary-policy easing to come, albeit at a variable pace among the multiple jurisdictions. More importantly, the descent of interest rates will be slower than the rise. This will pressure financing costs for deferred and new growth investments and refinancing risk; however, many transportation infrastructure issuers have pushed out their maturities. In addition, trade policies could fuel inflation in many countries, which, along with potentially weaker economic environment and unemployment, will test mobility demand, especially as two years of elevated inflation has significantly increased prices for mobility across the globe.

Finally, larger and more frequent natural disasters threaten to disrupt infrastructure assets in exposed locations (including higher costs for maintenance and indirect costs of insurance). At the same time, the global drive toward a "net-zero" economy heightens transition risks and will require significant investments, particularly for issuers that are highly exposed.

Industry Outlook: Airports

Ratings trends and outlook

Over 85% of our rated global portfolio (including U.S. and Canada public finance) has a stable outlook. Robust travel demand (despite high fares in some regions) has underpinned the financial metrics recovery and, in some cases, stirred a nascent positive rating trend. Going forward, we expect stable air mobility trends. We believe decelerating interest rates will help airport operators advance both replacement and capacity-enhancing projects along with sustainability investments. At the same time, the resurgence of dividend distributions could decelerate rating upside potential for some issuers if not managed prudently.

We assigned an investment-grade rating to JFK Millennium Partners LLC's $1.95 billion project financing issuance to refinance costs relating to the design and construction of the John F. Kennedy International Airport Terminal 6 Redevelopment Project on the sites of the former Terminal 6 and current Terminal 7 in New York.

On Dec. 19, 2024, we assigned an 'A-' preliminary issuer credit rating to Milan's airport operator SEA S.p.A. We view SEA's earnings profile as strong, supported by its solid market position as the largest airport system in Northern Italy (35.3 million passengers in 2023) and high operational diversity and flexibility that will maintain its good traffic growth over the next two to three years. This is anchored by a protective dual-till regulatory framework and a long-term concession expiring in 2043, which we believe will support stability and predictability in cashflows.

In India, we observed positive ratings trends—we upgraded GMR Hyderabad International Airport Ltd. (BB/Stable) on higher approved tariffs and robust traffic, while Delhi International Airport Ltd. (BB-/Positive) was upgraded in July 2023 to 'B+' from 'B' on the back of stronger traffic recovery and profitability, and subsequently again in May 2024 to the current 'BB-' rating due to expected higher tariffs underpinning material improvements in cash flow.

Main assumptions about 2025 and beyond

1. Passenger traffic growth will moderate after a strong post-pandemic rebound.

We expect air passenger traffic growth to moderate to the single-digit-percent across most of our rated airports globally, reflecting stable air mobility patterns.

2. Capital investments will lift over the next year or two to support growth.

With easing inflation (albeit still high in certain jurisdictions) and interest rates beginning to decrease, many airport issuers will resume their focus on deferred maintenance and growth investments. Some rated airports operating close to full capacity are beginning to discuss expansion investments. In the U.S. capital investment has increased significantly across airports of all hub sizes.

3. Climate transition and physical risks factors will gain prominence.

Climate transition and physical risks, depending on the location, could translate into greater capital and investment costs and impact passenger volumes, particularly for issuers that are highly exposed.

Asia-Pacific

Asia-Pacific passenger volume growth will moderate from 2025, after a strong rebound over 2023 and 2024. Across the Asia-Pacific market, seat capacity will strike a better balance as airfares continue to normalize. Still, airline capacity remains a constraint in some markets, which may affect growth.

Greater China's international passenger demand will continue to recover, back to prepandemic levels over the next 12-18 months. In mainland China, we expect capital expenditure (capex) momentum to moderate, and new investment will be increasingly based on demand.

Hong Kong airport capex will likely stay elevated over 2025, and focus will stay on the capacity expansion and passenger experience upgrade-related projects. We expect debt to climb further and delay credit metric recovery. Despite our estimation of passenger volume steadily returning to prepandemic levels by mid-2026, airline capacity and labor shortage remain key constraints.

South Korea traffic volume in 2025 will exceed that of prepandemic levels, after a full recovery in 2024. The newly added fourth runway and the expansion of Terminal 2 could further boost Incheon International Airport's revenue on the back of increased handling capacity. We forecast all revenue streams for the airport—including revenues from duty-free shops—will grow in the next two years.

Total passenger traffic for Indian airports will increase 8%-15% annually over fiscals 2025 and 2026 (ends March 31). Both domestic and international passenger traffic surpassed prepandemic levels by at least 110% since early fiscal 2024. Strong demand for both leisure and business travel, higher airline capacity, and more daily flights on commissioning of recent terminal expansions will support traffic growth. Margin improvement will also be supported by higher nonaeronautical revenue following the completion of terminal expansions, particularly in the retail and duty-free segments.

We expect 3%-5% growth in passenger volume for Australian and New Zealand airports in 2025. Some airports have exceeded pre-pandemic traffic levels, while others will achieve this by the end of 2025. Aero-related capex will remain elevated over 2025 to 2027 for capacity addition and is backed by agreed pricing with the airlines.

Europe, the Middle East, and Africa (EMEA)

Moderate traffic growth in the lower-single-digit percent area for European airports. We expect European airports' credit quality to remain sound on the back of the industry's strong business fundamentals and recurring cash flows. Higher indebtedness still poses a challenge for most airports while management teams develop future strategies on investments and shareholder distributions. There is ratings upside potential for European airports whose credit metrics are improving thanks to robust traffic, favorable tariff regulations, manageable capex plans, and, ultimately, accommodating their debt structures to the post-pandemic environment.

Europe is leading the initiatives around limits on CO2 emissions that could result in restrictions on capacity deployment and lower passenger growth, especially in those regional airports relying on short-haul flights that can be replaced by rail journeys as mobility transition gains traction.

The ongoing dynamics of European airports are currently stable, with airports returning into business as usual. Under our base case, we expect the performance of each airport in 2025 to be mainly driven by the competitive position of each airport, rather than by sector trends like over the last five years. As part of this return to business as usual, we will monitor closely how the gradual restart of the shareholder dividends impacts and supports our forecast credit metrics.

North America: U.S. and Canada

North American airports have fully recovered from pandemic-related passenger declines, aided by a shift in consumer preferences for experiences (instead of goods). There are some large hub exceptions where regional business travel has not fully returned, often offset by growth in international traffic.

The annual 2025 passenger growth rate in the U.S. is likely to slow to 2%-3% as airlines pull back on domestic overcapacity due to stagnating demand as well as the weakness of ultra-low-cost carriers (e.g., the recent bankruptcy filing of Spirit Airlines), well-documented new aircraft delivery delays (i.e., the Boeing 737 Max), and engine reliability issues (i.e., the Pratt & Whitney PW1100G geared turbofan hamper operations.) There still remains a high propensity to travel, though down from the post-pandemic rebound.

Strong demand will drive passenger growth of about 8.5% in 2025 for rated Canadian Airport Authorities (CAAs), although aircraft availability constraints continue to weigh on the network. As expected, passenger volumes for rated CAAs continued to moderately grow in 2024 at about 6% year over year in total, and volumes have nearly recovered back to prepandemic levels.

Latin America

Traffic will continue to grow for airports at 2x-3x the region's GDP growth rate. Our forecast also considers strong demand from the U.S., especially for tourism; gradually stabilizing economies in Mexico and the Caribbean; and most regional airports to continue expanding above prepandemic levels. These increased volumes have triggered expansion needs as airports reach operation saturation. We see airports in the region focused on expanding and modernizing existing facilities—primarily by expanding terminals and runways in major cities. However, some countries may not be able to adequately address future air transport demand given the lack of space adjacent to airports.

Several countries have started major airport expansion projects, which we expect will boost the operators' capacity and create new opportunities for airport-related businesses. For instance, Brazil is investing heavily in its main airport, Sao Paulo-Guarulhos International Airport, while Mexico inaugurated the Aeropuerto Internacional Felipe Angeles in Mexico City in 2022 and a new airport in Tulum. On the opposite side, Mexico City Airport annual capacity has been capped at about 42 million passengers, forcing the migration to adjacent airports.

As leisure travel demand is growing, driven by a rising traffic mainly from North America since the pandemic, several Caribbean islands (Turks & Caicos, US Virgin Islands) are now considering private partnerships to renew and expand their airport capacity, as was the case for Jamaica's Kingston Airport, Aeropuertos Dominicanos in the Dominican Republic, and San Juan Airport in Puerto Rico. That said, many of these airports face physical climate challenges that weigh on our downside risk analysis.

Credit metrics and financial policy

Asia-Pacific

In Asia-Pacific, capex and distribution policies will drive the credit metric trends. Capex will expand in many countries in the next couple of years, and some airports have resumed paying dividend distributions. Those having completed their key expansion projects could see improving credit metrics driven by traffic and deleveraging efforts.

For Hong Kong, continuous increase in debt and funding costs will offset most of the cash flow improvement, leading to a slow credit metrics recovery. The size and schedule of its expansion capex are key credit drivers for Airport Authority Hong Kong. Its financial metrics could also face pressure if the air traffic volume and cash flow recovery detract to below our expectation.

For South Korea, operating performance and financial metrics at Seoul's Incheon International Airport are likely to further improve in 2025 and 2026. This is largely due to a fast recovery in passenger traffic and the completion of the Phase 4 expansion. We expect capex to substantially decline in 2025 from the peak in 2024 when the expansion was completed.

For Indian airports, we need greater clarity on dividend policies considering stronger cash flows, which is underpinned by robust recovery in traffic and profitability, and expected higher tariffs that incorporates investment in expansion capex. We believe relatively attractive onshore rates and multiple financing options will support expansion plans. Onshore financing remains key to debt financing, and rated airports tapped the domestic debenture market to refinance some of their U.S. dollar bonds in 2024, given that the cost of onshore debt has not increased as much as for offshore debt. Private markets could provide an alternate source of funding amid tougher market and financing conditions.

Credit metrics will remain steady for Australian and New Zealand airports. They will need to strike a balance between debt usage and equity to fund capex to preserve their credit profile. Rated airports are committed to their credit profile and will exercise flexibility on their capex, particularly discretionary nonaeronautical capex.

EMEA

Our ratings on European airports will mainly depend on each airport's financial discipline to cope with peak capex and shareholders' deferred compensation when the sector debt leverage has increased by 20% in the past years. Our rated airports began to recover on investments from 2023, and we expect a strong pipeline to remain under our projections in 2025 and 2026. In terms of dividends, our issuers displayed a prudent financial policy that supported our ratings, and that delayed the recovery on dividends toward 2025. Under our projections, by 2026 our portfolio will return to a level of dividends that will be comparable and slightly above than that of 2019, and we project 2025 levels will be approximately one third of our forecast for 2026.

North America: U.S. and Canada

In the U.S., high passenger volumes and inflation-related concession revenues growth fuel top-line growth for airports and rising operating expenses and debt service increases did not uniformly hamper 2023 financial performance (as highlighted in our annual median report) with similar ranges likely in 2024. For 2025, we expect debt levels will continue to grow as capital investment ramps up to update facilities and add capacity. Credit ratings for consolidated rental car special facilities at airports have fully recovered, and we anticipate the generally strong financial performance will continue.

In Canada, continued strong growth in passenger volumes will bolster CAAs' revenues in the coming year, with support from annual increases to aeronautical fees. In some cases, increases to Airport Improvement Fees to fund large capital programs will mitigate debt issuance.

Latin America

Latin America airports' financial metrics could come under pressure due to investments in infrastructure and environmental sustainability amid pressure over high interest rates. In addition, the latter also puts pressure on refinancing costs, hence we expect they will weaken coverage ratios.

In many cases, our ratings on Latin American airports are linked to those on respective sovereigns, making sovereign rating actions a crucial factor in rating changes on the airports. This is either because airports are government owned or because of the regulated nature of the airport's tariffs. This was the case of the recent downgrade of Aeropuerto Internacional de Tocumen S.A., which we downgraded to 'BBB-' from 'BBB' following the same action on the sovereign on Nov. 27, 2024.

Key risks or opportunities around the baseline

1. Traffic growth could be lower than we forecast due to affordability concerns.

Stickier inflation could pressure consumer spending on air travel.

2. Geopolitical tensions could weigh on travel demand.

Geopolitical tensions could reduce leisure traffic and redirect routes to or from Asia-Pacific, but for the overall portfolio the impact is limited at this stage.

3. Aggressive shareholder returns and growing capital investment needs could increase debt levels.

Higher shareholder returns may elevate debt levels, especially when these are not commensurate with traffic growth.

Traffic growth could be lower than we forecast due to affordability concerns. The prospect of stickier-than-expected inflation, as well as a slower-than-projected drop in borrowing costs could pressure consumer spending on air travel, particularly if ticket prices remain elevated.

Geopolitical tensions could weigh on travel demand. Geopolitical tensions in Europe (i.e., Russia-Ukraine) and the Middle East could reduce leisure traffic on some touristic destinations and redirect routes to or from Asia-Pacific, but for the overall portfolio the impact is limited at this stage.

Aggressive shareholder returns and growing capital investment needs could raise debt levels. Higher-than-expected shareholder returns, and growing costs of capital investment and deferred maintenance may result in elevated debt levels and pressure financial metrics, especially when these are not commensurate with traffic growth.

Ratings Trends: Airports

Chart 1
Ratings distribution

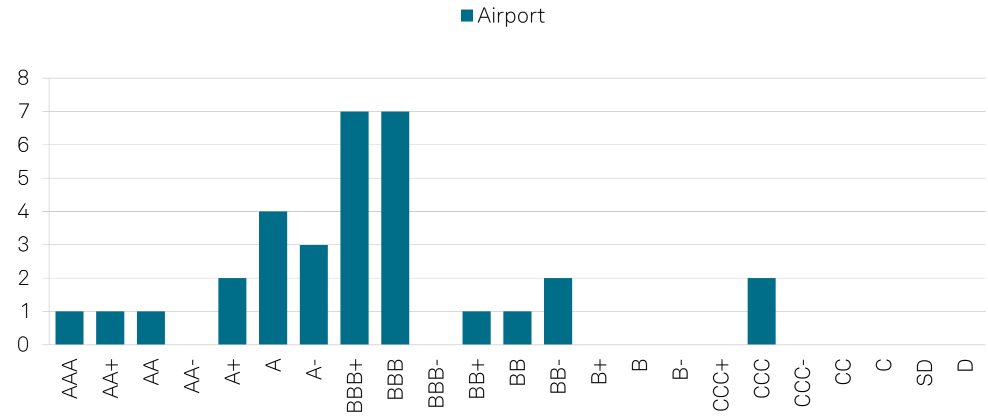


Chart 2
Ratings outlooks

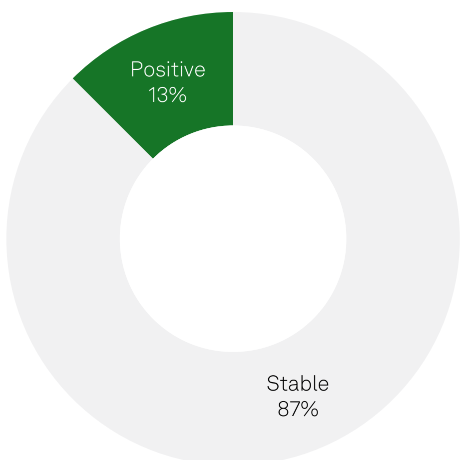
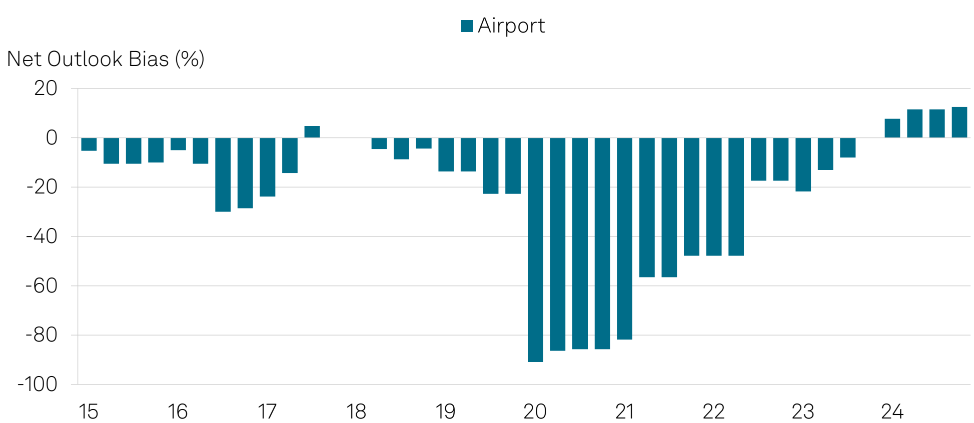


Chart 3
Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Credit Metrics: Airports

Chart 4

Debt / EBITDA (median, adjusted)

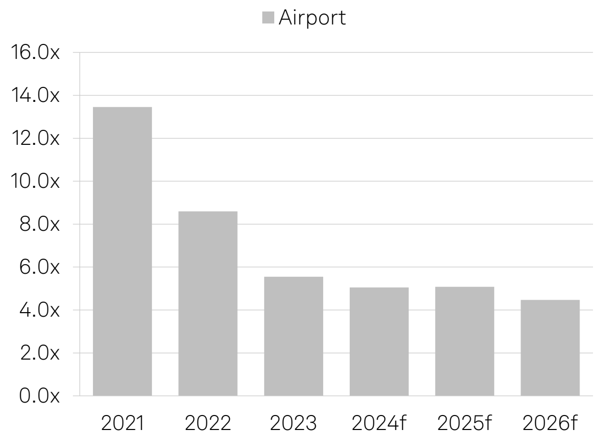


Chart 5

FFO / Debt (median, adjusted)

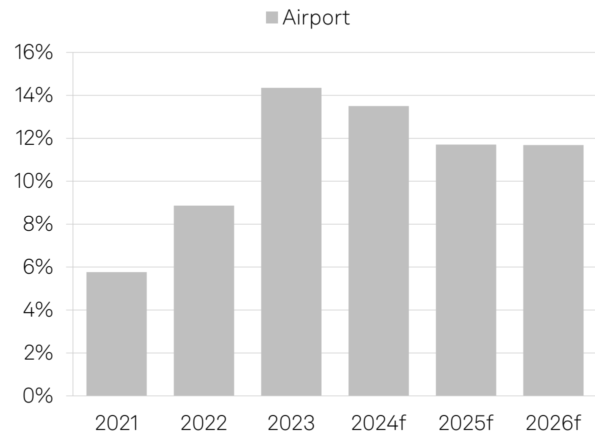


Chart 6

Cash flow and primary uses

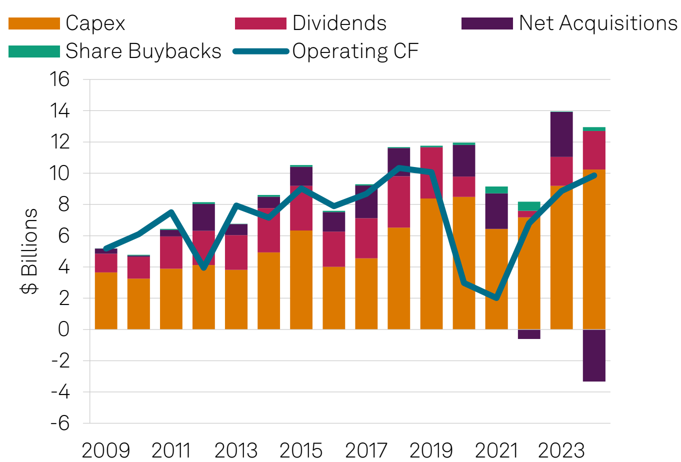
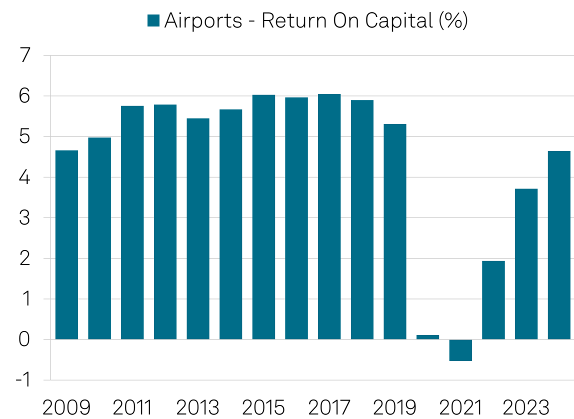


Chart 7

Return on capital employed



Source: S&P Global Ratings, S&P Capital IQ.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. Most recent (2024) figures for cash flow and primary uses and return on capital employed use the last 12 months' data.

Industry Outlook: Ports

Ratings trends and outlook

About 60% of our rated portfolio currently has a stable outlook, and 25% has a positive outlook. In EMEA, the few negative outlooks are driven by external factors rather than the asset's stand-alone performance. Given ports' relevance to their local and regional economies, most of our rated ports have strong links to the credit quality of their respective sovereign, either because of material ownership or because the rating on the country caps the issuer credit rating.

Geopolitical tensions and protectionist trade policies will test the resilience of port issuers across the globe and may curb capital investments. That said, our rated ports in general have a larger buffer in their credit metrics to withstand potential downturn volume risk and volatility.

We assigned an investment-grade rating on the first North America cruise port P3 San Juan Cruise Port LLC's $187 million notes, which will fund the construction and operation of the San Juan Cruise Terminal project. The project is exposed to full passenger volume risk.

We revised our outlook on Adani Ports and Special Economic Zone Ltd. (BBB-/Negative) to negative in November 2024, reflecting the potential impairment on its funding access and increase in funding costs. This follows a U.S. indictment of three board representatives of an unrated Adani group entity that could affect investor confidence in other Adani group entities (because the founder is on the board of multiple entities within the group). In our view, this could further raise questions regarding the management and governance of various Adani group entities.

The negative outlook was a reversal of our earlier positive outlook in June 2024. The positive outlook then reflected our view that Adani Ports' strong competitive position and diversification will support healthy cash flows.

Main assumptions about 2025 and beyond

1. Geopolitical tensions weigh on our volume and capital investment forecast.

Regional conflicts and trade protectionism policies curb and add volatility to our volume growth forecast. Similarly, we expect subdued capital investments until there is clarity on global trade conditions.

2. Strong competitive advantages support top lines.

Long-term contracts, diversity in cargo and customers, and pricing flexibility soften the blow.

3. Operational challenges remain manageable.

Highly efficient ports should be able to navigate through delays and congestion.

Asia-Pacific

Uncertain trade and foreign policies from the incoming U.S. administration. More tariffs against Chinese exports are likely. We factor in a rise in the effective U.S. tariff rate on Chinese imports to 25% from 14% from the second quarter of 2025, and retaliation by China in kind. Countries with a large trade surplus with the U.S. (Vietnam, Thailand, Malaysia, and India) could be vulnerable to universal tariffs.

Mainland China's throughput growth will decelerate against weakening exports. Policies by the U.S. new administration will shade the momentum as about 15% of China's exports are shipped to the U.S. Some factories may also rush shipments early 2025 in expectation of additional tariffs from later 2025. This could frontload demand to a certain extent, as evidenced by fast export growth in the past couple of months. With a weaker throughput outlook, we believe a port-handling tariff hike is less likely to materialize in 2025 given the looming downside risks of throughput.

Throughput growth in Hong Kong may stay soft, with intensified competition from other ports in the Greater Bay Area. Hong Kong's throughput narrowing will not likely recover substantially in the near term.

Rising cargo and resilient container volumes in India support port revenues. Good operating efficiency and medium-term contracts for containers support healthy margins.

Australian and New Zealand ports' trade volumes will grow modestly. Continuing cost-of-living pressures will result in lower import volumes, while containerized and bulk exports are resilient, aided by agricultural commodities. High-margin motor vehicle imports will ease a bit after strong growth in the past two years. Earning growth will also be supported by still-high inflation, linked pricing, and secure property rentals.

EMEA

The ports in EMEA we rate have shown a robust performance and resiliency to shocks over time given their strategic location or critical role to the local, and sometimes national, economies. This supports our expectation that as volumes and trading routes readjust, volumes will grow back at the same rate of the GDP of the port area of influence, and in some cases slightly higher as capacity extension or acquisitions are completed. We expect yields to be flat with limited upside potential as economic and geopolitical turmoil ease.

North America: U.S. and Canada

U.S. ports will face the highest level of uncertainty due to proposed tariff increases and anticipated retaliatory measures impacting both imports and exports. We forecast volume measures in both tonnage and containers will demonstrate growth in 2024 over 2023, aided by the threat of tariffs and, in the U.S., a potential strike by the International Longshoremen's Association on Jan. 15, 2025. While an East Coast strike was averted in October 2024, there appears to be no agreement in sight between labor and the shipping lines regarding automation, including the use of rail-mounted gantry cranes sought by carriers.

For San Juan Cruise Port, we expect passenger volumes will fully recover to 2019 levels by 2026.

In Canada, we expect modestly stronger growth in volumes in 2025, relative to 2024, on the back of stabilization in operations and steady economic activity. The largest Canadian port authorities experienced labor unrest that stopped operations in November 2024. The Federal Labour Minister issued an order to end the disputes following a 10- and seven-day lockout at the Ports of Vancouver and Montreal, respectively, citing the economic impact that could materialize from a prolonged disruption.

Latin America

Potential pressures on global trade will limit port operators' ability to adjust rates like in other regions. We expect flat volumes among Brazilian ports in 2024 as higher exports of agricultural products and protein will be mitigated by lower import volumes. There are new ports that were constructed in Peru dedicated to mining exports to China.

The Panama Canal remains exposed to hydrological cycles, while it doesn't execute and complete investments to address its water scarcity issues. About 3% of the world trade flows through the Panama Canal, which could be constrained by severe drought cycles that happens every two to three years in the country. In the 2023 El Niño cycle, the Autoridad del Canal de Panama was forced to limit operations to 22 daily transits for the first time (versus 35 historically). Because we expect this type of event to be more frequent and severe in the near future, we will monitor the execution of its mitigating investment plan, which will likely increase vessel traffic by approximately 11-15 daily Panamax-equivalent transits and provide an additional resource of water. On the rating side, a potential negative impact is offset by a cushion to its 'aa' stand-alone credit profile to its 'BBB+' issuer credit rating due to sovereign cap (capped at two notches above the sovereign).

Credit metrics and financial policy

Asia-Pacific

Our rated issuers will withstand volume risks despite uncertainty on trade throughput. We expect our rated Chinese issuers' financial metrics to mildly trend down given their continued capital spending needs for new capacities. Particularly, some are operators of the largest ports in mainland China that have been running at nearly full capacity, such as Shanghai Port and Yantian Port, with planned capacity expansion. That said, our mainland China and Hong Kong issuers have ample credit buffers against volume risks given their strong operating cash flow and paced capital spending.

Australian and New Zealand rated ports have strong balance sheets. These are likely to be absorbed by higher shareholder distributions and/ or opportunistic capex, such as property development, berth extensions, and trade diversification. Policy commitments to their ratings means shareholder distributions will be restrained should the need arise.

EMEA

In EMEA, EBITDA margins will remain comfortably above the industry average, with some exceptions given their distinct business propositions. Financial leverage also varies significantly on the capital intensity of each port's business models. Growth driven by acquisition plans and aggressive expansion plans weighs more severally on leverage ratios amid uncertainty and high dividend payouts. That said, both capex and dividends have been flexible when facing downside risks.

North America: U.S. and Canada

In the U.S., strong volumes in 2024 are likely to carry through the first quarter of 2025, after which the implications of any tariffs may be observed. As activity slowed in late 2022 and into fiscal 2023, ports experienced a 2% median decline in tonnage and 5% growth in operating revenue, while operating expenses increased 14%. As a result, fiscal 2023 median coverage declined but remained strong at 2.8x, with debt capacity and liquidity remaining relatively stable. Despite inherently exposed to volatility, many U.S. not-for-profit ports we rate have very strong market positions due to their critical role in supporting various industries, local and regional economies, and the overall health of the U.S. economy. While there could be some short-term disruptions—there is the possibility of a U.S. east coast port strike in January 2025—we believe port operators have the long-term credit strengths to absorb near-term volatility.

In Canada, two companies are undertaking significant capital programs that each involve building a new terminal (Vancouver Fraser Port Authority and Montreal Port Authority). We expect the financing plan for both to include an increase in their approved debt limit to accommodate the funding needs of these projects. As a result, we expect the authorities' coverage and debt metrics will weaken during the construction period before improving once the terminals are open.

Key risks or opportunities around the baseline

1. Trade tensions and geopolitical factors.

Trade tensions may accelerate the relocation of supply chains to several alternative countries in Southeast Asia and elsewhere. Similarly, geopolitical factors could affect supply chain or shipping routes.

2. Modernization.

Infrastructure remains a key focus of investment and a main differentiating factor for the ports we rate. Significant investments will be required for ports to facilitate vessels' transition to clean energy.

3. Continued disruptions.

Additional investments may be required to manage its challenges to ports' reliability.

Trade tensions and geopolitical factors present key challenges. Trade tensions remain a key downside risk for throughput growth for Chinese port operators over the next several years. This may also accelerate the relocation of supply chains to several alternative countries in Southeast Asia and elsewhere, or via reshoring and near-shoring. Similarly, geopolitical factors could affect supply chain or shipping routes.

Modernization drives efficiency and attractiveness. Infrastructure to accommodate large vessels and handle them more efficiently, together with automation and digitalization, remain a key focus of investment and a main differentiating factor for the ports we rate. Additionally, significant investments will be required for ports to facilitate vessels' transition to clean energy and drive electrification and energy efficiency.

Continued disruptions can be costly to ports' standing. In the face of congestion and inefficiencies that increase operational costs, additional investments may be required to manage its challenges to ports' reliability.

Ratings Trends: Ports

Chart 8

Ratings distribution

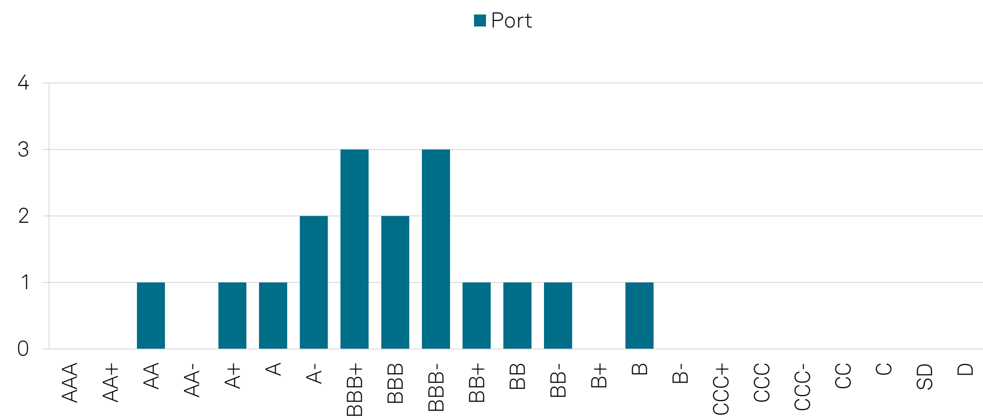


Chart 9

Ratings outlooks

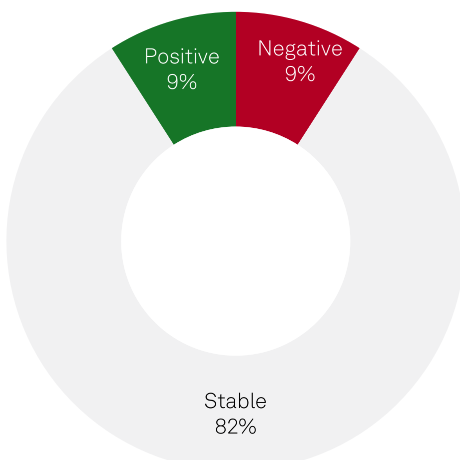
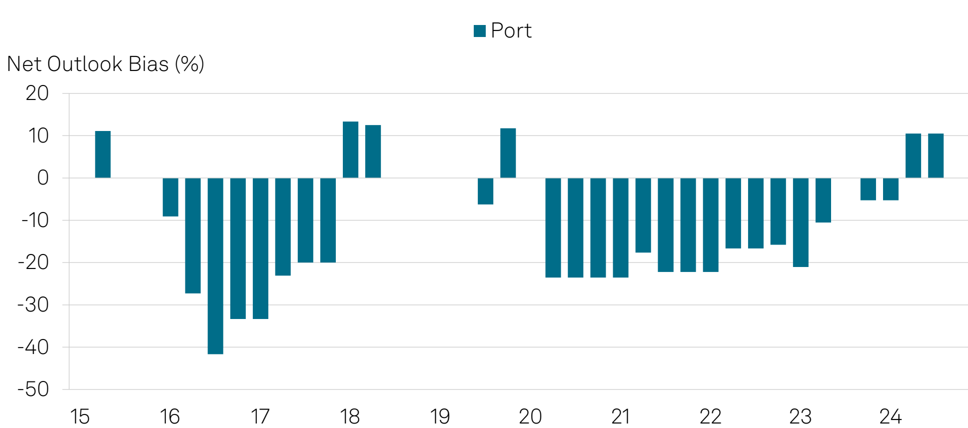


Chart 10

Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Credit Metrics: Ports

Chart 11

Debt / EBITDA (median, adjusted)

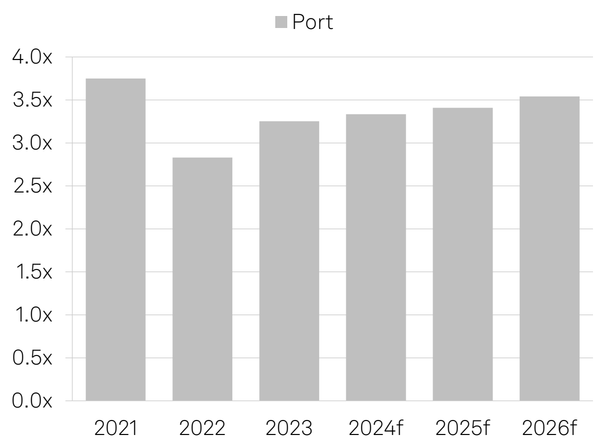


Chart 12

FFO / Debt (median, adjusted)

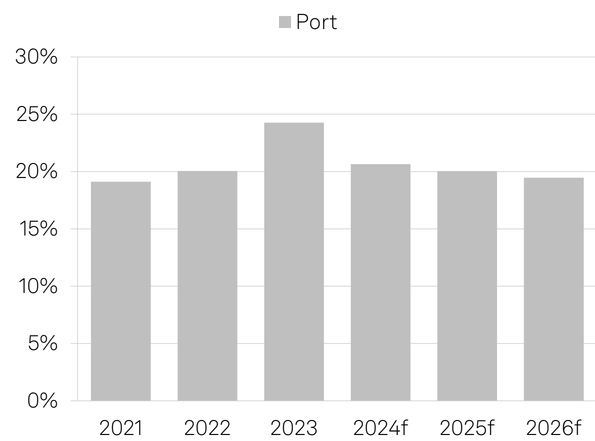


Chart 13

Cash flow and primary uses

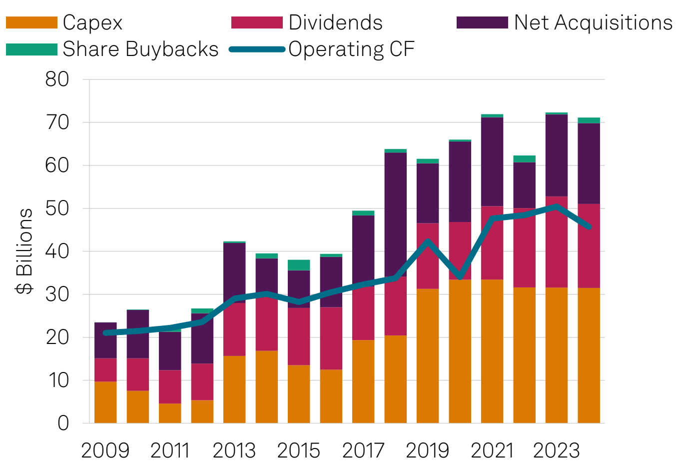
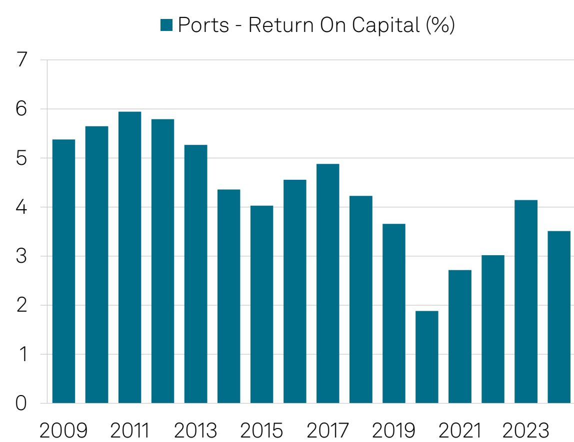


Chart 14

Return on capital employed



Source: S&P Global Ratings, S&P Capital IQ.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. Most recent (2024) figures for cash flow and primary uses and return on capital employed use the last 12 months' data.

Industry Outlook: Roads

Ratings trends and outlook

Not surprisingly, 100% of road operators (corporate global and not-for-profit north American issuers) have stable outlooks because this asset class has seen strong performances and financial resiliency, supported by strong revenue growth in past two years on inflation linked to toll increases. With inflation easing, we expect revenue growth for most toll operators to normalize. We have one negative outlook on a North American project financing asset, Toll Road Investors Partnership II. We also lowered the rating on this toll road following the rejection of its entire toll rate increase request, resulting in significant uncertainty around potential future toll increases and mounting pressure on the project's liquidity, as traffic remains well below prepandemic levels.

We expect capital spending and investment activity to increase in this sector and for toll operators to expand road networks either organically or through M&A activity, add express/managed lanes, and finance the ongoing shift toward all-electronic or open-road tolling (albeit at significantly high construction costs or valuation in the sector).

In Canada, the Federal Bridge Corp. Ltd. owns, manages, and operates the Canadian interests of four international bridges and associated structures between the Province of Ontario and the United States. While the current outlook is stable, as a provider of efficient transportation of goods between Canada and the US., it is significantly exposed to uncertainty due to potential tariff increases.

Main assumptions about 2025 and beyond

1. Revenue growth normalizes.

We expect earnings growth to moderate in most markets, driven by modest traffic growth and normalized toll increases. That said, toll fatigue could emerge as a risk in some countries.

2. M&A activity accelerates.

There will be high levels of activity either through steps to acquire new concessions, extend existing concessions, or M&A.

3. Leverage rises.

We expect leverage to increase either due to new debt-funded investments or shareholder-friendly practices.

Asia-Pacific

We expect traffic growth to moderate to below 5% in Asia-Pacific. We expect mainland China toll road traffic volume to grow at below 3% in 2025, slower than 2024 levels, due to base effects and China's economic slowdown. Potential hits to Chinese export from U.S. tariff hikes and lower investments in face of uncertainties may drag freight transportation. Sluggish consumption confidence and household income may hit small-sized vehicles' traffic. Moreover, toll revenue growth will likely be lower than traffic growth due to the government's overall goals to lower logistics expenses. At the same time, toll road investment will stay elevated because part of concessions are expiring in the next few years.

We expect South Korea revenue to increase in 2025, compared with 2022-2024, backed by strong traffic volume growth. After the completion of phase 1 of Seoul-Sejong Expressway, we project traffic volume will grow more than 5% in 2025. We forecast capex will moderate in 2025 because many investments have been already executed.

We forecast Australian toll road traffic will grow 2-4%. Some roads could face negative or tepid growth due to construction activities or cost pressure on consumers. Still, inflation-linked or fixed toll increases will assist earnings growth. Limited domestic opportunities could cause the Transurban group, the only rated toll road operator, to look offshore for growth.

EMEA

Traffic growth in European roads of 1%-2% in 2025, in line with expected GDP growth, with revenues supported further by inflation passthroughs. Therefore, we expect revenue and EBITDA growth of 2-3% in 2025. At the same time, we forecast higher capex in our portfolio and slightly lower dividends in 2025 compared with 2024. The European rated toll road portfolio is solidly positioned and expected to remain stable.

Finally, our European portfolio is heavily exposed to the dynamics of French toll roads, which are approaching the last 10 years of their concessions, so we expect them to gradually deleverage ahead of their maturities. This would improve credit metrics but wouldn't necessarily reflect a rise in overall creditworthiness. We expect European infrastructure companies, particularly those focused on brownfield operations, to continue monitoring acquisitions and auctions abroad given the limited pipeline in Europe through the concessional model.

North America: U.S. and Canada

For North American P3 toll roads, revenue growth will moderate in 2025, following significant toll increases (in some cases, 10%-15%) in 2023 and 2024. We expect toll rates increases to revert to historic levels except for 407 International, which raised its tolls and fees by more than 20% (based on our calculation) for 2025. As we anticipated, despite the high toll increases in the past two years, most toll roads continued to see modest traffic growth in 2024. We expect this trend in commuter traffic to continue in 2025.

However, the new U.S. administration's platform includes shrinking federal government employment, which could affect commuter volumes if executed, especially for rated toll roads in Virginia. For freight traffic, there remains some uncertainty over its growth with the new administration's tariff plan; that being said, most P3 toll roads are not materially exposed to freight traffic except ITR Concession, which generates almost 75% of its revenues from freight traffic.

For U.S. not-for-profit issuers, our expectations for traffic and transaction growth of 1%-2% are slightly lower but aligned with GDP as stable fuel prices and benign economic conditions support stable to slow growth. All eyes will be on the implementation of congestion pricing in New York City beginning in January 2025. How the transportation network changes (e.g., regional bridge and tunnel volumes, transit ridership, and overall congestion in Manhattan and in the region) as well as the congestion charge revenue performs will be of great interest to a large group of stakeholders.

Latin America

Vehicle volumes on roadways will grow at 1.0x-1.5x elasticity to GDP, considering a slowdown on trade volumes globally. This follows historical higher growth of 3x-4x elasticity to GDP growth in 2024, driven by heavy-vehicle traffic, particularly in Brazil and Mexico, where robust exports supported the economic performance. We expect capex to rise among Brazilian entities that expanded their portfolios by participating in new concession auctions. Indeed, we observed record new issuances to fund transportation assets in the Brazilian local market, totaling R$28billion (up to November 2024), about 80% higher than in the previous year, and we expect it to repeat in 2025. We also expect maintenance investments earlier than we previously projected due to the degradation of pavement caused by greater heavy-vehicle volumes.

In Mexico, we believe the imposition of higher import taxes in the U.S. coming from the new administration may result in lower growth trajectory, in comparison to past volume increases. Still, we don't expect a decline because Mexico is part of the supply chain of many industries in the U.S. and would be hard to replace. Finally, we expect metrics to remain generally stable in the next one to two years as growing revenue offsets capex in some markets.

Credit metrics and financial policy

Asia-Pacific

Leverage remains high or increases for most Asia-Pacific issuers. Mainland China's toll road operators' financial leverage will likely rise given their large investment need to undertake expansion projects to renew part of their concession rights. At the same time, operators from several major economically advanced provinces are mandated to sustain spending in transportation infrastructure in the country.

In South Korea, financial leverage will remain weak in 2025, because debt will likely stay elevated due to maintenance needs and phase 2 of construction of the Seoul-Sejong Expressway.

Australia-based Transurban group's balance sheet remains strong. The group is committed to its rating and will fund any new opportunities appropriately. While the group retains an active interest in the U.S. market, it will balance any offshore growth against any potential domestic opportunities.

EMEA

The financial policies of some of the European road operators will play a key role as the majority of their concessions mature over the coming fifteen years. The issuer closest to maturity in our rated portfolio is Holding d'infrastructures de transport S.A.S., which faces the maturity of its main concession in December 2031.

The new tax on long-distance transport infrastructure for French toll roads impaired the EBITDA of our European portfolio in 2024 (see 'New French Transport Infrastructure Tax Could Delay Operators' Long-Term Deleveraging', published on Jan. 22, 2024). We include this tax under our calculation of EBITDA, rather than on taxes. The French toll roads could also be exposed to a one-off negative impact should the Corporate Income Tax increase for fiscals 2024 and 2025. Such an increase is included in the draft of the French 2025 Finance Law that is currently under discussion in the French Parliament and could affect the cash flows of the impacted companies in 2025 and 2026.

North America: U.S. and Canada

Project financing toll roads typically maintain their credit quality by releveraging on the back of credit metric improvements (based on inflation-linked toll increases and unfettered demand response). Despite the high interest rates, toll road sponsors continued to take debt-funded distributions, driven by substantial toll revenue growth. Additionally, revenue growth supported refinancing at higher interest rates.

With increased costs of building infrastructure projects and high interest rates, the Transportation Infrastructure Finance and Innovation Act (TIFIA) loan will continue to play a critical role in financing upcoming managed lanes for P3s.

For U.S. not-for-profit toll roads, issuers with tolling policies linked to the CPI or other inflation-linked measures might report higher revenue growth in 2025, although some could defer allowable rate increases for fear of public opposition to maintain toll affordability, or because of previously implemented toll increases in recent years. In 2023, toll road financial metrics remained resilient despite higher expenses and increased debt loads, with higher traffic demand and toll increases producing a 5% median growth in operating revenue, and we expect similar ranges in 2024 and 2025.

As toll-related revenues increase from enforcement, fines, late fees, and penalties, there is often corresponding pressure from policymakers in some states to place limits or caps on these enforcement amounts, which could lead to higher toll rates to make up the difference. Lost revenue from open road tolling (i.e., removal of booths and reliance on electronic toll collection) remains an issue for many operators, though it is still manageable from credit perspective.

Latin America

In Latin America, financing conditions are likely to be tighter to fund its investments, given forecast higher interest rates in the region, while costlier interest expenses continue consuming a considerable portion of the companies' cash flows. High inflation and a weaker economic performance could hamper Chilean toll road operators, as inflation-adjusted toll rates start to weigh on commuter traffic. Finally, we are monitoring the development of the early termination of the Rutas de Lima toll road concession in Peru, announced in early 2023.

Key risks or opportunities around the baseline

1. Regulation risk in mainland China.

The regulation revision outcome remains pending. The revision will likely reform concession periods and payback mechanisms of new projects.

2. Highly leveraged M&A or shareholder friendly policies.

Valuation for this asset class has been growing significantly. The ratings of toll road operators could be hindered if they fund this M&A activity with material leverage.

3. Affordability concerns in some countries.

Toll rates have grown significantly. A rise in unemployment and weaker economic performance could hurt travel demand in some countries.

Regulation risk will matter in mainland China. The regulation revision outcome remains pending. The development of the country's "Regulations on the Administration of Toll Road" policy has been stalling, while the bulk expiry of toll road concession is approaching. The revision will likely reform concession periods and payback mechanisms of new projects, under a backdrop of heavy debt burden and diminishing returns in the sector.

Highly leveraged M&A or shareholder friendly policies could weigh on the ratings. Given the resiliency of toll road assets, valuation for this asset class has been growing significantly. The ratings of toll road operators could be hindered if they fund this M&A activity with material leverage.

There are affordability concerns in some countries. With 7%-15% toll increases in the last two years, toll rates have grown significantly. As consumer strength weakens, a rise in unemployment and weaker economic performance could hurt travel demand and commuting patterns in some countries.

Ratings Trends: Roads

Chart 15

Ratings distribution

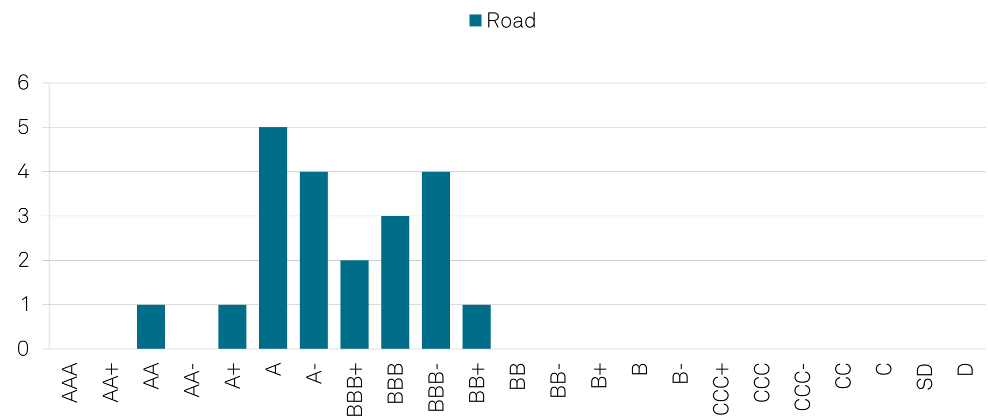


Chart 16

Ratings outlooks

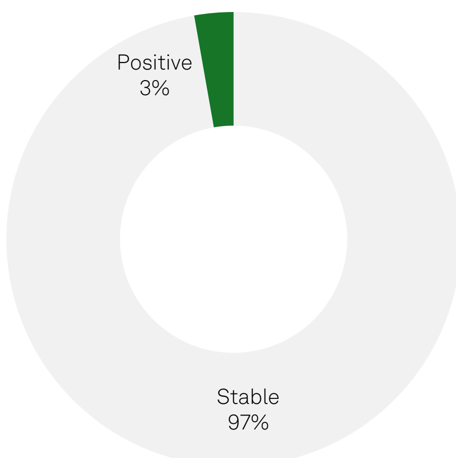
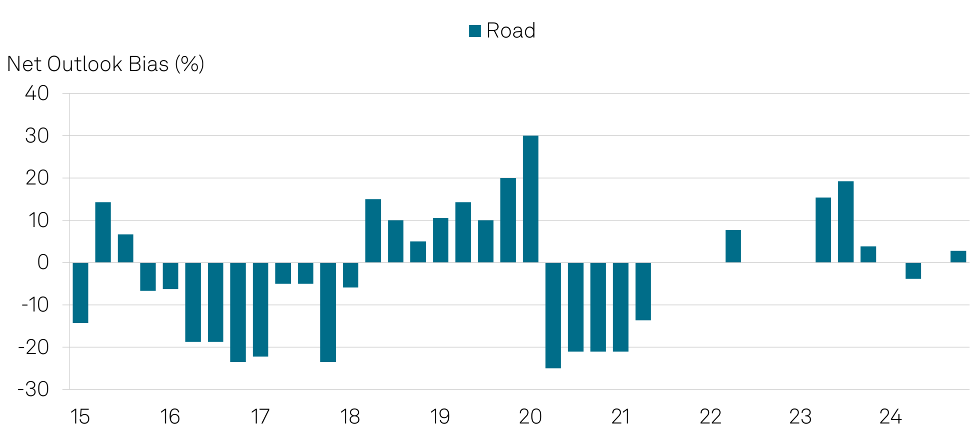


Chart 17

Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Credit Metrics: Roads

Chart 18

Debt / EBITDA (median, adjusted)

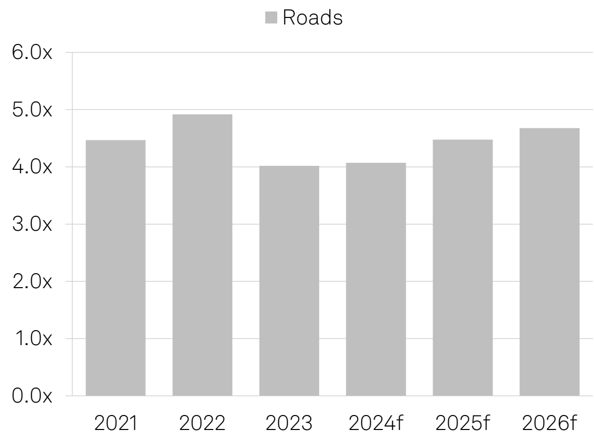


Chart 19

FFO / Debt (median, adjusted)

Chart 20

Cash flow and primary uses

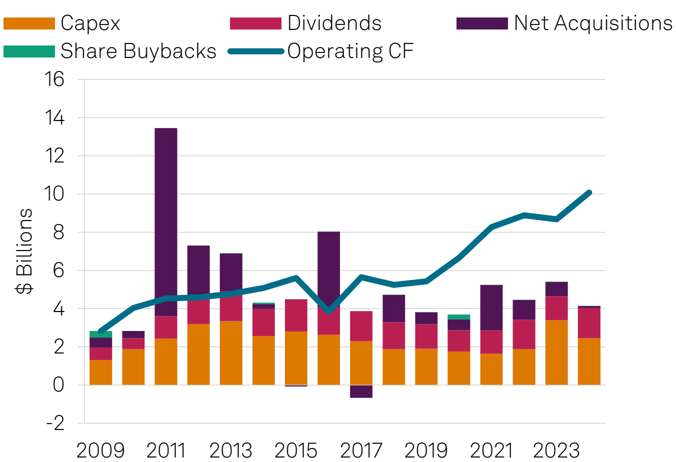
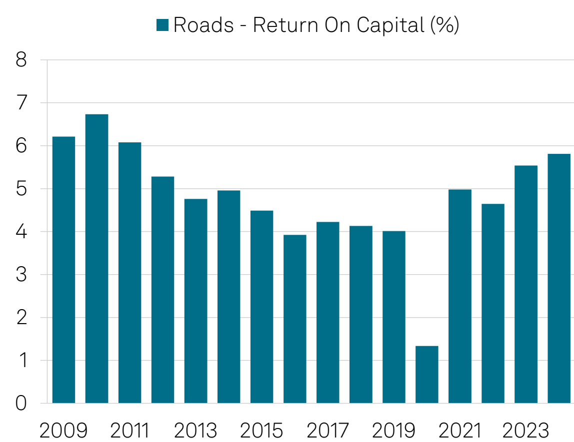


Chart 21

Return on capital employed



Source: S&P Global Ratings, S&P Capital IQ.
Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. Most recent (2024) figures for cash flow and primary uses and return on capital employed use the last 12 months' data.

Industry Outlook: Railways And Mass Transit

Ratings trends and outlook

We revised our sector view to stable from negative for U.S. public mass transit operators in September 2024. This was due to stabilizing credit fundamentals from dedicated tax revenue growth often outpacing fare revenue decreases, recovering-but-still-weaker ridership, and operators' ability to adjust service levels and expenses to restore fiscal structural operating fund balance. In other regions, railways and mass transit issuers have now recovered or will recover to prepandemic levels. We expect slow but stable operating performance at these issuers, which is reflected in our stable outlooks for over 80% of rated railway and mass transit operator ratings. We also still have negative outlooks on two railway operators in Europe, mirroring their respective sovereign ratings.

We assigned ratings on the first private railway project in North America in over 100 years, a 235-mile, high-speed rail (HSR) system that runs from Miami to Orlando with full ridership risk. We assigned a ‘BBB-‘ to Brightline Trains Florida LLC’s $2.2 billion notes and a ‘B’ rating on its holding company Brightline East LLC’s $1.3 billion notes.

Main assumptions about 2025 and beyond

1. Steady and slow ridership growth.

Transit operators have lagged prepandemic recovery, and we expect slow growth for most transit operators in most countries.

2. Limited shareholder returns.

We expect dividend distributions to remain limited in 2025 and 2026, which will maintain credit metrics amid the strong pipeline of investments.

3. Waning federal support.

In some regions, operators face local funding challenges going forward against a backdrop of waning government support.

Asia-Pacific

We forecast stable performance for rail operators next year after largely recovering to prepandemic levels. In mainland China, operating conditions for metro businesses in the major cities will remain stable, underpinned by resilient operations under government support. Chinese metro remains highly leveraged because fare box is unable to cover operating costs. The government policy is to keep fares low while providing subsidies to sustain metro operations and injecting capital to build new lines as a public service.

Hong Kong metro operations has largely recovered, and we expect them to remain stable over 2025. However, station commercial and property rentals will remain under pressure due to weak retail sentiment. Prevailing cross-border consumption in Mainland China by locals continues to erode retail spending in Hong Kong.

In Japan, passenger revenues will be 95%-100% of fiscal 2018 levels in fiscal 2024 (ending March 31, 2025). We expect the recovery from the pandemic to have largely run its course and that growth of passenger revenues will continue at a moderate pace as rising income from tourists covers sluggish income from commuters and other business users due to the entrenchment of telecommuting and online meetings. Average consolidated EBITDA margins of the rated issuers will return to prepandemic levels and stabilize in the next one to two years thanks to steady passenger demand, price hikes, cost cuts, and a rise in nonrailway operations earnings.

Rail ridership levels in Singapore will fully recover to prepandemic levels by fiscal 2026 (ending March 31, 2026), given the prevalence of the hybrid work environment. Steady traffic supports 7%-9% revenue growth over fiscal years 2025-2026. Government grants remain critical due to insufficient fare hikes or cost recovery as the affordability of public transport is an important socioeconomic policy tool in Singapore.

EMEA

We expect stable operating performance from our rated European railway companies, which are mostly publicly owned. European governments now have a stronger focus on reinforcing the role and usage of railway and public transport, under a wider strategy to decarbonize transportation and lower dependency on imports of fossil fuels. This materialized as policies to incentivize the usage of railway and public transport, but also a strong pipeline of investments going forward to improve the catchment areas and the quality of the service. This is mostly focused on passenger transportation, but also includes the more challenging task of increasing freight transportation through railways. This challenge has led some players to refocus on their homeland countries by disinvesting from noncore activities, such as Deutsche Bahn and NS Groep.

In parallel to this, the eurozone progresses slowly but steadily on the open to competitive dynamics of commercial railway services, mostly HSR. The entrance of competition on HSR in Italy led to an increase on the passengers transported and a decline in tariffs, and we Spain is now developing similarly. We are unclear yet on whether the entrance of competition will extend also to public service operations (PSO), which includes mass transit. PSO activities are usually operated under models with lower profitability, and the entrance of private players could be riskier, especially if they also have to provide the rolling stock. The U.K. is currently beginning a process in the other direction, with PSO activities expected to gradually return within the control of the U.K. government.

North America: U.S. and Canada

We expect the Brightline project to continue ramping up ridership and fare in line with our downside expectation. Thus far, revenues have outperformed our downside expectation (during the ramp-up phase, we focus on performance relative to our downside scenario) but underperformed our base-case expectations. The project's long-distance ridership, which generates close to 80% of its ticket revenues, has outperformed our base-case expectation. However, this growth in ridership has come at the cost of lower-than-expected fares. Going forward, managing short-term ridership and overall fare are key challenges for the project. In addition, with new cars being put in service in mid-October and management's peak travel time optimization efforts, we expect revenue performance to bridge the gap relative to our base case.

For U.S. not-for-profit issuers, slow transit ridership growth will continue from a lower baseline, and in some regions, operators face local funding challenges going forward against a backdrop of waning federal support via discretionary funding programs expected under the new administration and Congress.

Conversely, in Canada, the operating environment and demand profile continue to be strong given the essentiality of the service and support revenue generation at the British Columbia Ferry Services Inc (BCFS).

Credit metrics and financial policy

Asia-Pacific

Asia-Pacific issuers face capital spending challenges. Metro capex in mainland China is likely to diverge among regions, with investment continuing in developed regions, particularly in tier-one cities with population influx. Expansion in smaller cities is slowing as governments tighten control over investment-led debt growth.

Hong Kong's MTR Corp. Ltd.'s credit metrics will weaken, driven by debt-funded capital spending overshadowing operational revenue increase. Cash inflow from property development could take longer to materialize than before, straining available resources used to cross subsidize the continuous capital spending.

Similarly, in Japan, debt funded investments could strain credit strength. Our rated Japanese issuers will have negative FOCF due to their heavy investment burdens. This ensures their ratios of funds from operations to debt remain stuck.

Europe

Lower credit metrics in our rated portfolio of European issuers in 2024-2026, compared with 2022 and 2023. Despite our forecast for higher revenues in 2025 and 2026, this will limitedly translate into higher EBITDA amid weaker operating margins – consequence of passing through inflation into their remuneration in 2022 and 2023. In addition, we anticipate a strong pipeline of investments in 2025 and 2026, which is partially supported by our assumption of lower-for-longer dividends.

North America: U.S. and Canada

Sizeable liquidity will allow the Brightline project to meet ramp-up period challenges. Brightline is currently under the ramp-up period that we expect to extend until 2028. During the ramp up, there are sizable liquidity reserves available to support the project while it is on a path to revenue stabilization. During this phase, we are rating to our downside assumptions—given revenue does not initially cover expenses, we are evaluating the cash burn on the reserves. Currently, revenues are performing above our downside expectation (albeit weaker than our base-case expectation); as a result, cash burn is slower than we expect, which is a credit positive.

For U.S. not-for-profit issuers, tax and political support have been key in stabilizing credit fundamentals for mass transit operators—either due to revenue growth or from interim and longer-term financial commitments from state lawmakers and regional stakeholders. However, the outlook is negative on three transit agencies, including Bay Area Rapid Transit (A+/Negative), San Francisco Municipal Transportation Agency (A+/Negative), and Washington Metropolitan Area Transit Authority (WMATA; AA-/Negative). Notably, these are all large, urban transit providers with a historical reliance on fare revenue that project sizable outyear operating fund deficits once remaining stimulus aid is depleted.

In Canada, the rating on BCFS was lowered to 'AA-', despite the strength in the demand profile, from 'AA' to reflect projected weakening in the debt service coverage and debt burden as the company undertakes its large asset-intensive capital program in the next five years.

Key risks or opportunities around the baseline

1. Weakening leverage profile of some Asia-Pacific issuers.

An increase in debt could strain credit strength. Nonrailway business expansion could heighten revenue volatility amid slow medium-term growth in the railway business.

2. Competition.

The entrance of competition on commercial lines is likely to continue progressing. National incumbents' investments to foster efficiencies and quality of service will be key to help them maintain their profitability.

Weakening leverage profile of some Asia-Pacific issuers. A larger-than-expected increase in debt due to accelerated growth investment in areas such as real estate development and the maglev bullet train project could strain credit strength. Nonrailway business expansion could heighten revenue volatility amid slow medium-term growth in the railway business.

Incumbents need to prepare for competition. The entrance of competition on commercial lines is likely to continue progressing, leading to lower tariffs as we have seen with the new HSR competitors in Italy and Spain. National incumbents' investments to foster efficiencies and quality of service will be key to help them maintain their profitability.

Ratings Trends: Railways And Mass Transit

Chart 22
Ratings distribution

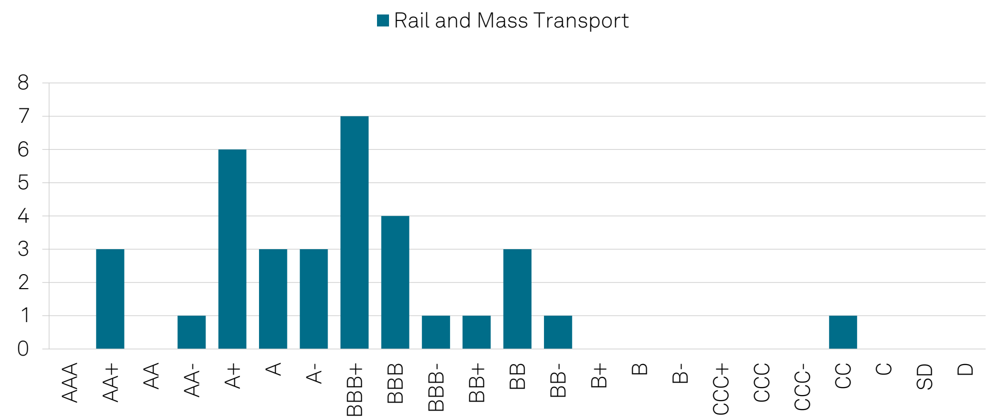


Chart 23
Ratings outlooks

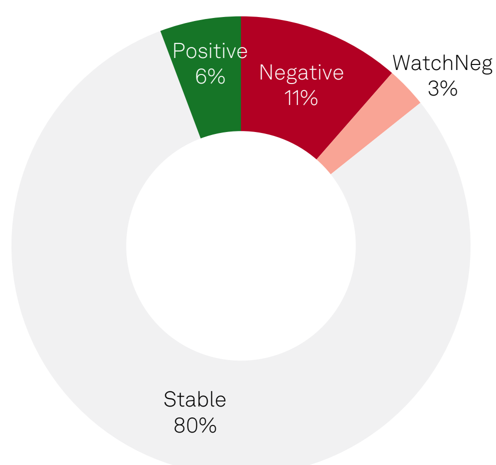
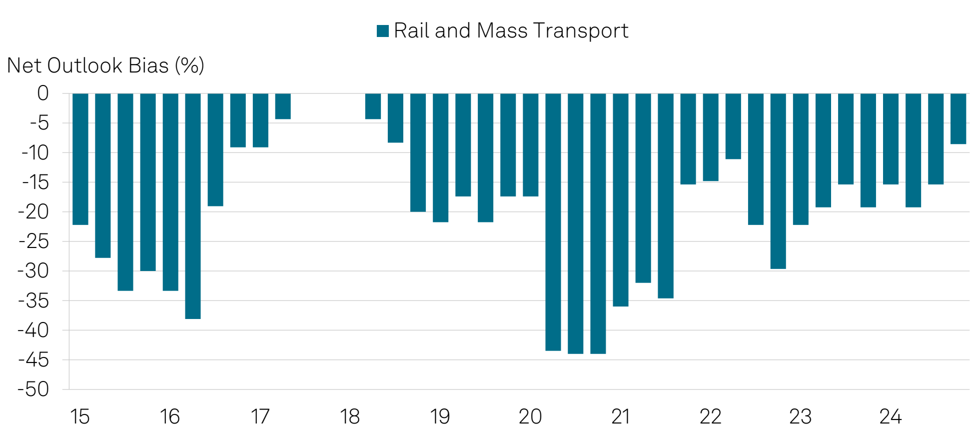


Chart 24
Ratings outlook net bias



Source: S&P Global Ratings. Ratings data measured at quarter-end.

Industry Credit Metrics: Railways And Mass Transit

Chart 25

Debt / EBITDA (median, adjusted)

Chart 26

FFO / Debt (median, adjusted)

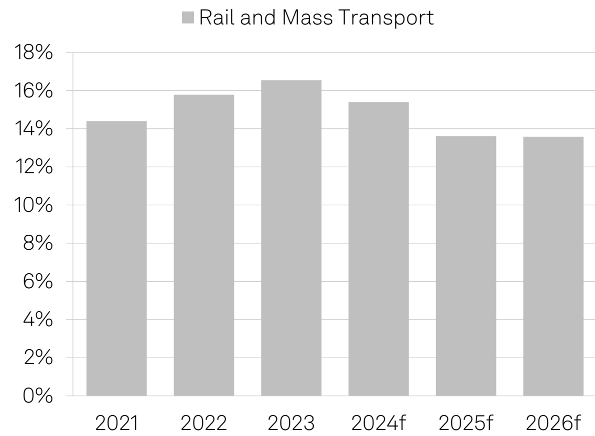


Chart 27

Cash flow and primary uses

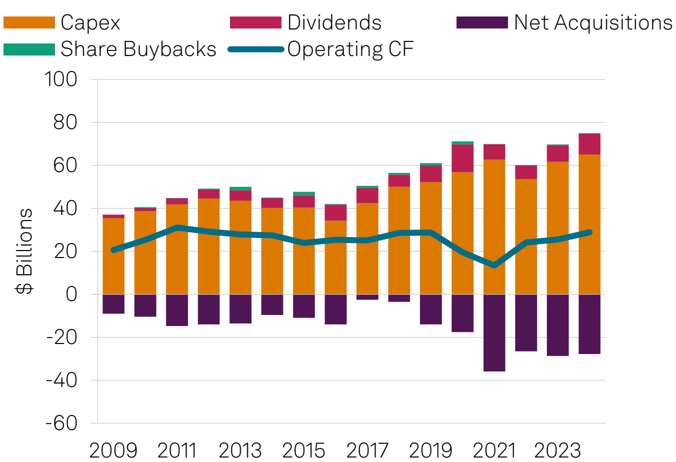
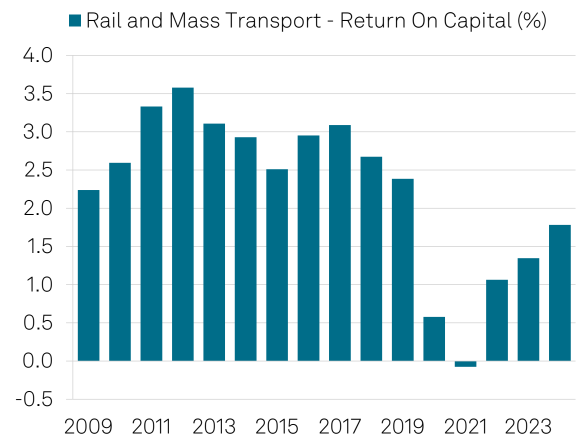


Chart 28

Return on capital employed



Source: S&P Global Ratings, S&P Capital IQ.

Revenue growth shows local currency growth weighted by prior-year common-currency revenue share. All other figures are converted into U.S. dollars using historic exchange rates. Forecasts are converted at the last financial year-end spot rate. FFO—Funds from operations. Most recent (2024) figures for cash flow and primary uses and return on capital employed use the last 12 months' data.

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